

**BOARD OF INVESTMENT TRUSTEES  
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

**MINUTES – OPEN SESSION**

March 4, 2005

11 North Washington Street, Suite 250  
Rockville, Maryland

Board Members Present:           Stephen Farber, Chair  
  Arthur Spengler, Vice-Chair  
  Mark Barnard  
  Gino Renne  
  Tim Firestine

Staff:                               Linda Herman  
  Daniel Weiss  
  Joanne Tsai

Others Present:                   Mark Brubaker, Wilshire Associates  
  Amy Moskowitz, General Counsel to the Board

***CALL TO ORDER***

Mr. Farber called the open session of the Board to order at 8:50 a.m.

***ADMINISTRATIVE COMMITTEE REPORT***

Mr. Firestine presented to the Board the report of Administrative Committee activities.

**Quarterly Review - Budget versus Actual Expenses - 12/31/04:** Mr. Firestine reviewed the budget versus actual expenses for the plans as of December 31, 2004. He noted additional outside legal and other expenses had been incurred in the Deferred Compensation Plan for communication materials to inform participants of their participation options. After discussion, the Board approved the following resolution:

***0503-01       Resolved, That the Board approves the following transfer related to the Deferred Compensation Plan's FY 05 budget: \$3,000 from salaries to professional services and \$4,000 from salaries to office management to pay additional expenses related to the transition of assets to the Union Deferred Compensation Plan.***

**FY 05 – Projected Expenditures:** Ms. Herman informed the Board of the County's decision to delay the move of staff offices until June of 2005. The delay will result in the Board paying rent and other related expenses for April thru June of approximately \$29,600 and the need for the Board's budget to be amended. The Board approved the following resolution:

**0503-02      *Resolved, That the Board approves an amendment to the FY 05 budget for each plan reflecting rent and other related expenses for April thru June of 2005.***

**Due Diligence/Continuing Education Quarterly Report – 12/31/04:** Mr. Firestine presented the quarterly update of the due diligence and continuing education expenses as of December 31, 2004, noting that two requests for travel had been approved by the Administrative Committee.

**Comprehensive Annual Financial Report:** Ms. Herman discussed the FY 04 audit of the retirement plans by the County's external auditors, KPMG. She noted that the auditors had issued a report of no material findings resulting in no recommendations of changes to operational procedures. The report has been submitted to GFOA for their Excellence in Financial Reporting Award.

#### ***OTHER BUSINESS:***

**Deferred Compensation Plan - Update:** Ms. Herman updated the Board on the status of the transition of represented employee participants to the elected plan scheduled for mid-March.

The Board discussed items on the workplan recommending no changes.

The Board approved a motion to move into closed session at 9:35 a.m. After completion of the closed session business, the Board resumed the review of the remaining items in open session.

#### ***APPROVAL OF MINUTES***

The Board unanimously approved the minutes of the December 3, 2004 open session, as amended.

#### ***FUND PERFORMANCE REVIEW AND INVESTMENT OUTLOOK***

Mr. Brubaker presented Wilshire's performance analysis of the Employees' Retirement System as of December 31, 2004 and noted the total fund performance continued to be ranked in the top tier of Wilshire's Public Fund Universe. The ERS performance for the one year ended December 31 ranked at the 25th percentile or better than 75% of the public funds surveyed. The outperformance over the one-year time period was due to the strong returns achieved by our domestic equity managers, including; Goldman Sachs, Numeric's Core portfolio, and Systematic. He noted longer term performance, for the 3, 5 and 10 year periods, continues to be ranked above median. The Board reviewed the performance results of the mutual funds offered in the Retirement Savings Plan and Deferred Compensation Plan. The Board discussed the lifecycle funds offered in both plans and requested the Investment Committee evaluate the fund offerings compared to a peer group of competing funds for performance and fees.

#### ***INVESTMENT COMMITTEE REPORT***

Mr. Barnard presented to the Board the report on the Investment Committee meeting.

**ERS Rebalancing Recommendation:** Ms. Herman discussed the current allocation to each investment manager and market sector versus the Board's Manager Funding Policy and asset

allocation targets. She recommended the Board consider rebalancing between market sectors and individual managers to bring the portfolio in line with the target allocations, except in the domestic equity sector where no transfer was recommended to the passive BGI Russell 3000 Index. Mr. Brubaker noted Wilshire's recommendation (part of the asset/liability study) to increase the allocation to international from 15% to 20% of the total fund. After discussion, the Board approved the following resolution:

**0503-04      *Resolved, That the Board rebalance the ERS portfolio as presented, with the transfers between managers to take place over the next six months. In addition, the Board approves the following changes to the Manager Funding Policy for international equity managers: Marathon 50%, Emerging Markets Manager 15%, Capital Guardian EAFE 30%, and BGI EAFE Fund 5%.***

**Bridgewater - Fee:** Ms. Herman presented background information on Bridgewater portfolio's change from a U.S. only to global mandate. The transition period to fund the portfolio and move to a global mandate will be completed in March 2005. Additional funding of the Bridgewater account will take place over the next six months. Bridgewater's fee for a global mandate is 30 basis points versus 27.5 for a U.S. only mandate. The Board approved the following resolution:

**0503-05      *Resolved, That the Board approve the Bridgewater fee of 30 basis points for the global mandate effective June 30, 2005.***

**Directed Commission Brokers:** Ms. Herman presented staff's analysis of the four brokers recommended to be used by Capital Guardian, Marathon, Goldman Sachs and Wellington for directed commissions. The Board discussed the use of commission recapture programs and approved establishing agreements with the recommended brokers.

**Fixed Income Managers – Annual Review:** Mr. Weiss discussed the review of the fixed income managers noting BlackRock's 9% allocation to non-dollar securities, JP Morgan's substantial cash balance, 16%, and WR Huff's overweight to higher quality debt, BBB, versus the benchmark. The analysis reflected the composite of the managers represent a diversified mix of sector allocation.

**Real Estate – Investment Vehicles:** Mr. Brubaker highlighted Wilshire's review of the various real estate investment vehicles available, the risk and return of each type of investment, and recommended the Board consider an opportunistic allocation to real estate through private real estate investment managers. The Board concurred with the recommendation and requested staff to begin a formal search process.

There being no further business of the Board, the open meeting session was adjourned at 11:20 a.m.

Respectfully submitted,

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Sandra P. Kaiser, Secretary